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Guyana Economic Opportunities

Caribbean Basin Initiative (CBI) Business and Policy Seminar: Trade and Investment Opportunities for Guyana

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I. Introduction

Provisions of trade benefits to Caribbean Basin Initiatives (CBI) beneficiaries under the Trade and Development Act (CBTPA) of 2000 establish that practically all products satisfying origin requirements, when imported from designated beneficiaries, will receive duty-free treatment when entering the United States. In simple terms, this means that for all but a few exceptions, as described below, imports from the Caribbean are free of duties when exported to the U.S. market.

This report describes the exceptions and addresses implications for current and potential investors and exporters, implications of the Act for the region, and steps to be taken by CBI governments to assure maximum benefits from the Act.

The Act is the third step in efforts to provide duty-free benefits for CBI imports into the United States. The provisions address exceptions from duty-free treatment in previous bills, specifically exceptions applicable to textiles and apparel as well as leather and related products, canned tuna fish, petroleum and petroleum products and certain watches.

Under the CBTPA, all products currently excluded from CBI become eligible for favorable treatment.[1] Even though the bill is only in effect for eight years after its October 1, 2000, implementation date, this access should continue beyond the eight-year period either through an extension of the unilateral program or through replacing it with a free-trade agreement.

The important new provisions for duty-free benefits under the CBTPA are:

- Duty- and quota-free treatment for apparel made in CBTPA beneficiary countries from U.S. fabrics formed from U.S. yarns (that is, apparel made in the region from fabric imported from the U.S.);

- Duty- and quota-free treatment for certain knit apparel made in CBTPA beneficiary countries from fabrics formed in CBTPA beneficiary countries, provided that U.S. yarns are used in forming the fabric and subject to certain yearly limits (that is, use fabric made in the region from U.S. yarns for apparel production, as currently occurs in El Salvador, Honduras and Guatemala, and soon in Dominican Republic); and,

- Mexico-equivalent tariff treatment for certain non-textile items previously excluded from the duty-free treatment under the original CBI program; e.g., footwear, leather products, canned tuna, petroleum products, watches and watch parts, furniture, etc. (which is the new category and a key area of interest to the region's non-apparel producers).

[1]The statutory exclusions cover footwear, handbags, luggage, flat goods, work gloves, leather-wearing apparel, canned tuna, watches and petroleum, and other products derived from petroleum products.

- A detailed product classification listing is available with U.S. Customs, and now totals over 8,000 products. The predominant product categories and sectors under the Harmonized Tariff Schedule (HTS) are:

HTS Number	Description
1604 1604.14.10-30	Prepared or preserved fish, caviar, and caviar substitutes
2709 2709.00.10-20	Petroleum oils and oils obtainable from bituminous materials, crude
2710 2710.00.05-45	Petroleum oils and oils obtainable from bituminous materials, crude, including preparations
4202	Trunks, suitcases, vanity cases, attache cases, briefcases, school satchels...., and similar containers, of leather or of composition leather, of sheeting of plastics, of textile materials, of vulcanized fiber, or of paperboard, or wholly or mainly covered with such materials or with paper
4203	Articles of apparel and clothing accesories, of leather or of composition leather, including gloves and mittens
4602	Luggage, handbags, basketwork, wickerwork, flat good and other articles, made directly to shape from plaiting materials (bamboo, willow, rattan, palm leaf)
6401-6406	Footwear or parts of footwear (waterproof, sportswear, etc.) with outer soles and uppers of rubber or plastics, leather or composition leather, or textile materials; formed uppers for footwear, of leather or composition leather…
9101-9102, 9108-9114	Wrist wacthes, pocket watches and other watches; watch movements, complete and assembled; complete watch ... movements, unassembled or partly assembled; incomplete watch ... movements, unassembled or partly assembled; watch bands, straps and bracelets, and partes thereof; other watch parts...
9802, 9820	Apparel articles (cut or knit-to-shape and sewn, crochetted), non-underwear t-shirts, brassieres, from U.S. yarn and fabric, cotton, linen, silk, cotton velveteen, corduroy, etc., including handloom, handmade or folkloric apparel textile and textile luggage

Exceptions to duty-free treatment are described below.

Many of the non-textile statutory exceptions do not receive immediate duty-free treatment. The bill provides that North American Free Trade Agreement (NAFTA) rates apply to them. Any of the leather and leather-related exceptions will not reach zero-duty rates under NAFTA until ten years after NAFTA has been in effect; that is to say, not until 2004. In such a case, CBI rates will immediately be reduced to NAFTA rates, which are 70 percent below most-favored nation rates.

For agricultural commodities subject to tariff rate quotas, duties will continue to apply to the high-duty tranche of the quota. Products falling into this category which are of interest to the Caribbean include cotton, groundnuts, sugar and tobacco.[2]

[2] The Uruguay Round required the United States to replace its agricultural quotas with a two-tranche tariff rate quota. The lower tranche allows duty-free entry up to 6 percent of U.S. domestic consumption. (For sugar, a small duty was applied for entries under the lower tranche.) Imports under the second tranche usually face prohibitive duties often in the triple digits.

Non-textile articles failing to satisfy origin requirements are ineligible for CBI duty-free treatment. Origin requirements under the CBI requires that at least 35 percent of an article's value consist of Caribbean content. Caribbean content is the sum of the costs or value of materials originating in one or more beneficiary countries and incorporated into the product and the direct cost of processing carried out in beneficiary countries. Fifteen percentage points or about 40 percent of the value-added requirement can be composed of U.S. produced components.

The U.S. President must remove from eligibility products subject to global safeguard actions. Safeguard actions are applied when global imports of a particular product are found to be increasing, entering at low prices, and causing or threatening to cause serious injury to U.S. producers. The trade remedy can provide only for the removal of a product from CBI duty-free treatment when CBI imports from the region are found to be the major cause of actual or threat of serious injury.

Textile products are prohibited from countries not adopting an effective visa system, domestic laws and enforcement procedures to prevent unlawful transshipments of the covered articles. Stiff penalties can be levied for fraudulent practices such as for transshipments. In this regard, the bill provides technical assistance to ensure cooperation with U.S. Customs officials and compliance with U.S. laws.

Textile mills products such as Caribbean yarn, fabrics and home furnishings (towels, sheets, etc.) are excluded. An exception is that Caribbean handlooms, hand-made and/or folkloric articles are eligible. The definition of folkloric is left for negotiations between the beneficiary country and the United States, subject to U.S. Customs rulings. A significant difference from current practice is that a folkloric product can be made on a machine.

Apparel assembled in one or more eligible countries from fabrics wholly formed and cut in the United States from yarns wholly formed in the United States is not eligible if it fails to meet specific detailed origin rules.

There are two types of eligible apparel. The first requires that the yarn be spun, and the fabric be formed and cut in the United States: so-called 807A. The other does not require that the fabric be cut in the United States; the fabric can be cut in the region: so-called 809. In the latter case, the thread used for sewing must be twisted in the United States. In both cases, up to 7 percent by weight of the yarn can come from non-U.S. sources.

However, there are various other requirements for eligibility. Products can be denied eligibility if "findings and trimmings"—defined to include hooks, eyes, button, decorative lace, zippers, etc.—of third-country origin exceed 25 percent of the cost of the components of the assembled products. In some circumstances, linings and sewing thread may be included in the definition. This paper does not go into all the details for eligibility, which would require the services of an expert.

Only a limited amount of Caribbean Basin apparel not produced from U.S. yarns and fabrics are eligible. Certain knit apparel from the region will be eligible for duty-free treatment. This type of apparel can be divided into two categories of apparel articles. The first covers knit apparel articles knitted to shape and wholly assembled in one or more CBI beneficiary countries. The second covers knit apparel wholly assembled in one or more beneficiary countries from fabric woven in the region. Both categories must be produced from yarn spun in the United States. Knitted socks are excluded from this designation.

These categories of imports are subject to a duty-rate quota. Imports of such knitted apparel other than certain T-shirts can be entered duty-free at an amount not to exceed an amount equivalent to 250 million square meters in the first year of the program. T-shirts do not fall under this tariff rate quota but are subject to a different quota amounting to an amount equivalent to 4.2 million square meters during the first year of the program. However, both these allocations grow by 16 percent a year.

Apparel subject to a special safeguard mechanism are not eligible even if it falls within the ceiling. A strong point of the bill is that it does not separate this quota into subcategories, which make it difficult to fill the whole quota. The bill provides for tariff relief in the form of tariff snapbacks if products from a single beneficiary are found by the U.S. Secretary of Commerce to cause “serious damage” or threaten to cause “serious damage” to U.S. producers of like or directly competitive products.

It is worth noting that the bill does not provide a mechanism for allocating this amount if imports reach the ceiling. Investors are concerned if a first-come, first-served basis is used. On the other hand, country allocations can result in unused portions of the global allocation.

An additional change to the program allows brassieres to enter the United States under duty-free treatment if they are assembled in one or more CBI beneficiary countries. In such a case, up to 75 percent of the fabric component of the brassiere must originate in the United States. It is difficult for companies to designate that each shipment meets this fabric requirement. If this figure is not reached for imports entering under this program for any one year, the required input increases to 85 percent the following year.

Some apparel assembled in the Caribbean Basin can enter duty-free without limitation even if not produced from U.S. yarn and fabric. This includes apparel made from third-country yarns not available in the U.S. (including silk and lighter forms of cashmere and merino wool) and apparel wholly assembled from fabrics not available in commercial quantities in the United States.

Apparel from third-country materials only partially assembled as opposed to being wholly assembled in one or more beneficiary countries is not eligible for duty-free entry. Partial assembly means that some of the sewing together of apparel parts is done in non-beneficiary countries.

Other than apparel, there is a special provision allowing Caribbean rum to enter the United States duty-free if it is bottled in Canada and meets other requirements. Under normal CBI provisions, articles cannot be finished in a NAFTA beneficiary and retain eligibility for CBI entry.

Any import from CBI countries not designated for participation does not receive duty-free treatment.

Designation of beneficiaries is left to the U.S. President, who must decide if the potential beneficiaries meets the requirements laid out in the bill. Through the U.S. Trade Representative (USTR), the U.S. government has already determined that the following countries are eligible for the new CBTPA benefits, as they have made progress in implementing and following the customs procedures required by the CBTPA:

- Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, and Panama became eligible effective October 2, 2000;
- Guyana became eligible effective November 9, 2000;
- Trinidad and Tobago became eligible effective February 6, 2001; and,
- St. Lucia and Barbados became eligible effective June 1, 2001.

The claiming of the CBTPA preferences must comply with certain customs procedures and regulations, some of which have not been finalized to date. The Customs Report of May 2001 details these requirements, whose application is mostly in the area of documentation and certification of origin compliance requirements, all of which are readily available from any U.S. agency and/or the U.S. Embassy in Guyana, as well as on-line via the Internet.

The other eligibility requirements are a combination of existing CBI requirements and some new requirements. The new requirements address principally observing World Trade Organization (WTO) commitments, including customs valuation requirements, meeting the annual requirements to be certified as cooperating with counter-narcotics efforts, implementing the Inter-American Convention Against Corruption, meeting obligations under the ILO convention against abusive child labor, and transparency and fairness in government procurement. However, the U.S. President is only individual required to take these considerations into account in making designations and is not statutorily required to find that countries are in complete compliance.

Even when CBI duty-free treatment remains in effect, duties in the form of unfair trade remedies can be levied on imports. Countervailing or anti-dumping duties are levied against imports from individual countries found to have been sold at dumped prices or to have benefited from subsidies and where such imports from unfair traders have been found to cause or threaten to cause material injury to U.S. production.

Finally, the bill establishes the basis for a deeper ongoing relations between the United States and the Caribbean. The bill suggests that the President convene a meeting of trade ministers to establish a schedule or regular USTR meetings with CBI trade ministers. These meetings will discuss the likely timing and procedures for initiating negotiations on accession to NAFTA or entering into another form of a free-trade agreement with the United States. It is important to note that the same provision exists for the Africa-AGOA legislation, and for which a meeting has already been scheduled for October 2001 in Washington, D.C. It behooves CBTPA governments, as well as the private sector, to impress on the U.S. government their interest in advancing on this Trade Ministerial Forum.

II. Comparison with NAFTA

Although CBI is comprehensive, it does not attain full parity with the NAFTA.

CBI may be the most generous of any unilateral preference scheme in the world. The three CBI bills enacted by Congress (1984, 1990 and 2000) together provide extensive duty-free treatment for the region's exports to the United States. The history of the program has revealed that, unlike the Generalized System of Preferences (GSP), the program is amazingly stable, with few countries losing eligibility and few products being removed from eligibility. The origin rules are simple and do not pose significant barriers to trade. The new provisions in CBI, which are part of the CBTPA, expands coverage of the program.

It is clear that despite the region's efforts to attain parity with Mexico in this bill, CBI benefits cannot be equated with NAFTA parity. Below are described five areas where CBI benefits do not measure up to NAFTA benefits: access for textiles, access for non-textile products, origin rules, trade rules, and duration.

A. Access for Textiles and Apparel

NAFTA rules allow for much more value-added production in the exporting country than CBI. Both countries allow cutting and sewing to be pursued in the exporting country. Sewing is still a labor-intensive operation and thus can contribute to reducing unemployment in a number of countries. However, whereas Mexico is able to sew unlimited quantities of its own production of cloth in addition to up to 46 million square meters of cloth imported from third countries, CBI is limited to one million square meters of its own cloth and can sew hardly any third-country materials.

NAFTA rules encourage more value-added production in the exporting country. There is no limit on Mexican components used in the manufacturing process. In fact, there is no difference in the treatment of U.S. and Mexican inputs. Under CBI, with the exception of brassieres, apparel produced from materials in short supply and folkloric and handicraft products, unlimited duty-free treatment is reserved for apparel produced only from U.S. components. CBI components cannot be counted as U.S. products for origin purposes. Brassieres require that at least 75 percent of the fabric incorporated in the final product be formed in the United States; there is little opportunity to include CBI inputs.

By only allowing a small amount of apparel produced from regional fabrics, it discourages the development of farm-to-retail outlet texite production in the country. In fact, the amount of apparel allowed to be produced from regional materials is less than 0.5 percent of total imports of apparel. The failure to allow any duty-free treatment for apparel produced from fabrics woven in the region and the maintenance of a tariff rate quota on apparel produced from yarns knitted in the region at levels below current production impacts negatively on CBI textile mills. CBI mills are principally located in Guatemala and El Salvador, where they have contributed to the revitalization of the rural communities.

B. Access for Non-Textile Products

The major difference between NAFTA and CBI treatment in the non-textile area is for those agricultural commodities subject to tariff rate quotas. Under NAFTA, all products are or will be duty-free. Such important agricultural products to CBI as tobacco, sugar and rice are important to the region. Other than relief on a very small fee on sugar, there is no preference for CBI countries for these products.

C. Origin Rules

Although the origin rules are very liberal, the fact is that rules which differentiate between importing and exporting country discourage local content. Even though only 20 percent of the direct cost of processing must originate in a CBI country if 80 percent originates in the United States, this still means that there are production processes where CBI beneficiaries cannot participate. There are no such activities under NAFTA where Mexico cannot participate because more than 80 percent of the components are produced in the United States.

If CBI was a NAFTA member, it could ship all products with U.S. and CBI content meeting NAFTA-origin requirement duty-free to Canada. Under the present regime, CBI products with U.S. inputs cannot be shipped duty-free to Canada.

A third advantage is that, as part of a free-trade area, products with less than 7 percent third-country (non-U.S. and non-Mexican) content can enter under NAFTA with little paperwork under a *de minimis* provision. U.S. content is treated as foreign content in determining whether the 7 percent *de minimis* limit can be use

D. Trade Rules

The most significant advantage of NAFTA, or for that matter of any Free Trade Agreement (FTA), over CBI or any unilateral system of preferences, is the rights accorded to the parties. Under an FTA, countries can apply to dispute settlement if there is a disagreement. NAFTA has a very sophisticated dispute settlement mechanism. No such right exist under CBI.

CBI countries can be removed for violating eligibility requirements; no such possibility exists in a contractual arrangement. For example, Honduras lost some preferential benefits in 1998 when it did not resolve a dispute over intellectual property rights (IPR) with the United States. It eventually had to agree to unilaterally modify its IPR laws to gain the benefits backs. Similarly, almost every Central American country was subject to investigation of its labor practices. Although no country lost benefits, El Salvador, Guatemala and Honduras had to modify their practices. Under NAFTA, Mexico has certain labor obligations, and although a number of complaints have been raised, the United States has not been able to force Mexico to act unilaterally. In fact, Mexico has brought a number of cases against the United States.

A second difference is that under NAFTA or any FTA, countries can take measures to restore the balance of concessions. Thus, when the United States increased duties on broom corn, Mexico was able to take retaliatory measures by raising duties on products of interest to the United States

E. Duration

NAFTA and the non-textile provisions of CBI do not expire. However, the apparel provisions are only in effect for eight years, until 2008.

III. Recent Performance under CBI-CBTPA

EXPORTS TO USA FROM CARIBBEAN (US$m)

COUNTRY	1992 TOTAL	1992 CBI	1992 APPAREL	1998 TOTAL	1998 CBI	1998 APPAREL	1999 TOTAL	1999 CBI	1999 APPAREL	% Growth in CBI Exports 1992-1998
Barbados	31	15.5	--	35	20.4	1.65	59	24.6	2	4.7
Belize	59	23.7	--	66.4	19.7	18.1	81	23	17.5	-3.1
Dom. Rep.	2,373	567.7	--	4,441	1,295	2,400	4,300	820.2	2,3900	14.7
Haiti	107	19.1	--	272	28.1	218	300	21.9	250	6.6
Jamaica	599	48.1	--	755	102.1	422	678	89.6	344	13.4
St Lucia	N/A	4	--	22.3	7.8	10.3	28	9.2	8.4	12.0
Trinidad-Tobago	848	44.7	--	977	186.2	3.5	1,300	217.9	3	26.9
Grenada	N/A	1	--	N/A	8.2	N/A	N/A	11.5	N/A	40.3
St Vincent	N/A	.165	--	N/A	3.5	N/A	N/A	7.2	N/A	66.6
Guyana	**101**	**1.2**	**--**	**137**	**24.6**	**11.2**	**122**	**14.7**	**10.8**	**65.4**
ALL CBI	9,701	1,528	--	17,384	3,225	8,385	19,751	3,571	8,918	--

GUYANA'S EXPORTS TO USA IN 2000 (US$m)

TOTAL	TOTAL CBI	TOTAL APPAREL
141	16.4	10.8

Source: US Department of Commerce, International Trade Commission

The region's export growth into the U.S. market has risen over the same period as the implementation of CBI provisions in 1983 and 1990, and is expected to continue with the new CBTPA 2000 benefits. The export data gathered tells a lot concerning export performance, and the sectoral concentration of exports into the U.S., which has been mostly in the apparel sector under CBI trade and tariff preferences. Exports to the U.S. from CBI countries have increased markedly and have allowed for diversification away from primary commodities.

CBI program exports to the U.S. have increased on average at approximately 11 percent per annum during the 1990s, with an increase in value of nearly 500 percent. While one expected major growth in apparel-producing and free-trade zone countries like Jamaica, the Dominican Republic, and even Haiti, it is interesting to note the double-digit growth in all countries except Belize and Barbados. For some countries, where the initial export rate was relatively low, we see an increase of 27 percent in Trinidad and Tobago, all the way to 65 percent in the case of Guyana. The small OECS countries experienced major increases as well.

Apparel growth was also positive in all countries up to 1998, when some declines were experienced throughout the region, more than likely the result of increased competition from Mexico and Central America, whose maquila and free trade-zone operations began to expand in the mid-1990s.

Guyana's case is quite illustrative and even surprising to many, for there is steady growth in all exports to the U.S. over the years, including CBI-eligible products as well as apparel. It is clear that external and internal factors have affected this growth pattern as there has been a small, but steady, decline in total exports, total CBI exports, and total apparel exports between 1998 and 1999.

A disaggregation of Guyana's top-five exports to the US by product-category shows the following recent performance:

GUYANA'S EXPORTS TO US (1998-2000) VALUE AND % COMPARISON

CATEGORY	1998 US$m	1998 %	1999 US$m	1999 %	2000 US$m	2000 %
Aluminum ores and metals, etc.	57.4	42.4	50.8	41.7	45.6	32.3
Seafood, crustaceans, shrimps, etc.	29.7	22	28.1	23	40.4	28.7
Cane or beet sugar, etc.	7.7	5.7	5.5	4.6	12.9	9.1
Plywood, veneered pane, and others	11	8.1	9.7	7.9	10.8	7.6
Apparel, clothing, etc.	9.4	7	11.2	8.2	10.8	7.7

Source: US Department of Commerce, US Census

In essence, Guyana's exports to the U.S. remain predominantly primary commodities with some increase in the manufacturing and apparel sector. Given the focus on improving the investment environment in Guyana, coupled with the external investment pressures to find locations for off-shore manufacturing and the new enhanced duty-free preferences for export into the U.S. market, one can foresee many opportunities for advancing investment and manufacturing initiatives in Guyana.

Both government and business in Guyana must understand that market acccess preferences, such as CBI or Lome/Cotonou, in and of themselves do not result in market entry and export growth. Too many factors crucial to manufacturing for export performance are domestic-based and have little to do with the nature, coverage, or effectiveness of preferential trade regimes.

What preferential regimes can do, however, is provide a useful tool to complement domestic initiatives to produce incentives for production and manufacturing for export, domestic and foreign investment promotion incentives, and eventually, a business and policy vision of engaging the international market for trade and investment opportunities.

IV. Opportunities and Challenges for Guyana

This review of policy and data performance indicates not only the possibilities available for increasing manufacturing production for export in Guyana and for expanding Guyana's share of U.S. markets under CBI preferences, but also indicates the many competitive challenges in the region and beyond.

Already regional and international strategic alliances are being developed to advance and deepen market shares of exports into the U.S. The Dominican Republic and Haiti, for example, at the government and business levels, are already advancing on initiatives for apparel production and manufacturing development on their joint border, focusing on transferring to Haiti the more labor-intensive operations which are becoming less competitive in the Dominican Republic. However, internal initiatives have also served as an incentive to this structural and macroeconomic effort, as Haiti is advancing on new legislation for an investment code and for free-trade zones, in essence making itself an attractive destination for investments and manufacturing from anywhere in the world, not just from its neighbor and from the local manufacturing sectors.

In Central America, Nicaragua (the latecomer to apparel and free-trade zone production) is also experiencing similar growth, as it begins to attract labor-intensive manufacturing from the more service- and high-tech-oriented Costa Rica. Likewise, with textile milling taking place already in El Salvador and Guatemala, they will also benefit from the additional regional fabric preferences of the CBTPA. Part of the Dominican-Haitian strategic alliance is also centered on the development of textile-milling operations in the Dominican Republic by the end of 2002.

Guyana already has successfully attracted foreign investment into the extraction and light transformation industries such as lumber and minerals, and has experienced growth in its production and export capacity. To some degree local capital has been involved in these ventures but not as diverse as could be expected. Moreover, not enough focus has been given to the transformation aspect of investment and production for export, as the trade figures show that a high concentration still exists in the commodity sectors.

The advances made for an investment code, coupled with the commitments to focus on attracting new manufacturing into the country, could very well form the basis of attracting investment and enhancing manufacturing for export for the various product categories and sectors which have preference under the CBTPA. Some of this can already be advanced on the basis of the current manufacturers who we have seen are exporting under CBI and into the U.S. in a variety of sectors.

Focus on developing strategic alliances at the regional and international levels is needed in order to attract best-practice manufacturing to Guyana. One would imagine that an obvious focus would be with Trinidad & Tobago. But also one should consider looking to joint ventures with Barbadian manufacturers, for example, whose high labor and production costs are making them very uncompetitive even within the protected CARICOM market.

And then, of course, given the new FTA with Dominican Republic, and that country's becnhmark and best-practice experience with manufacturing for export, it is clear that there are opportunities to look for and advance new initiatives. Already Guyana and the Dominican Republic are partnering in the rum trade, so it is not farsighted to envision some partnering in more value-added manufacturing.

Finally, one word of caution concerning challenges. There are many challenges concerning local issues (infrastructure, government-business relations, political instability, social unrest, etc.) and with external competition, smallness, as well as limited resources to engage the international trade agenda. However, the most pressing challenge is that if Guyana does not focus on taking advantage of these current trade and investment opportunities, these will soon vanish as they will be taken up by other countries in the region and beyond. The opportunities we have discussed have time-limited windows and exist under market competition conditions. If Guyana does not become more proactive to take advantage of them, others elsewhere will.